

Public Power's Perspective on Resource Adequacy and Markets

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Overview of APPA and EMRI

- 2,000 not-for-profit publicly owned electric utilities, accounting for 15 percent of all power sales.
- Own almost 10% of all capacity & purchase 70% of power to serve customers.
- Electric Market Reform Initiative (EMRI) created in 2006 to study RTO markets and develop reforms.
- Concerns: high and volatile prices, difficulty obtaining LT contracts, complexity, time-consuming governance process.
- **Capacity markets have risen to a primary concern in recent years.**

Are Capacity Markets Working (Providing Needed Resources and at Least Cost)?

PJM

Volatile prices and short-term commitments.

Price signals not effective. (Once you build, price is gone.)

Each MW treated equal/95 percent is existing MW.

Does not account for fuel diversity, technology type, transmission system characteristics, etc.

Mandatory market (other than restrictive FRR).

MISO

Voluntary, residual capacity market, integrated utilities.

Not the centerpiece of resource adequacy strategy.

What Actually Gets Stuff Built?

APPA Study: *“Power Plants Are not Built on Spec”*

98% of 2011 new capacity owned or contracted (including 37% under public power or co-op ownership or contracts).

PJM: Almost half of new MW clearing the base residual auctions is known to be owned or contracted. (No comprehensive data.)

What Gets Stuff Built in Illinois?

EIA data on new generation in IL, 2009-2012
~ 4,750 MW nameplate capacity

- 38 percent wind
- 43 percent Prairie State & Dallman 4.
- **84% owned or contracted**
- **66% public power/co-op** (primarily Prairie State, Dallman & wind power contracts w/TVA)

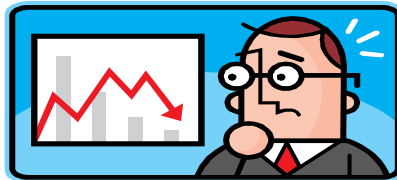
MOPR & Impact on Public Power

Public power utilities increasing self-supply to avoid over-reliance on volatile RTO markets.

NJ & MD frustration with PJM capacity market: RFPs for new plants

↑ Supply ➡ ↓ Prices (sounds like the way a “market” works!)

= lower profits



Regulatory “solution” = prevent “buyer-side market power” through Minimum Offer Price Rule (MOPR) changes in PJM (approved by FERC in April 2011).

Self-supply’s guaranteed clearing and state resource exemptions removed -- overturned negotiated provisions.

MOPR bottom line: New entry is inhibited and reliance on problematic market increased.

What About MISO?

Don't jump!

FERC June 2012 Order on MISO's
proposed Resource Adequacy
Requirements (RAR):



*MOPR
Mandatory Market*

Rejected mandatory market and MOPR.
Included opt out provision.

BUT, in August 2013, requested briefs on
inclusion of a MOPR.

Results of MISO 2013/14 Auction

% of Planning Reserve Margin Requirement

Zero-Price Offers: 56.8 %

Fixed Resource Adequacy Plan: 34.2%

Demand Resources / Energy Efficiency: 4.5%

Positive-Price Offers Cleared: 4.1%

Subtotal Self-Supply = 91%

(Source: Affidavit of Dr. Laurence D. Kirsch And Dr. Mathew J. Morey, Christensen Associates, APPA/NRECA Initial Brief)

APPA's Proposed Reforms

APPA's *Competitive Market Plan* , February 2009 and June 2011: Phase out capacity markets (or retain as a voluntary residual market).

Bilateral contracting as the primary means for resource adequacy. RTO sets reliability standard. States determine resource needs and issue RFPs for contracts of varying terms. (Optional for public power.)

(We are not alone: Cliff Hamal of Navigant Economics, "BiCap Approach." LDCs sign bilateral contracts for capacity.)

At a minimum, restore self-supply guaranteed clearing!

What is Next at FERC?

Held Technical Conference on September 25.

Requested Comments by December 9.

Robert Ethier, Vice President, Market Development, ISO NE: “A world with more robust bilateral engagement, with more robust load-serving entities, with long-term obligations to serve load would facilitate this discussion a lot... The market would be much more successful if you had that long-term counter-party to go with the resource side.”

Resources

Electric Market Reform Initiative

www.publicpower.org/emri

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